Canadian Grain Commission | Commission canadienne des grains

Future-oriented statement of operations (unaudited) 2016-17

Canada

Canadian Grain Commission

Notes to the Future-Oriented Statement of Operations (unaudited)

1. Authority and Purpose

The Canadian Grain Commission (CGC) Revolving Fund ("the Revolving Fund" or "the Fund") derives its authority from the *Canada Grain Act*. The CGC's mandate, as set out in the Act, is to, "in the interest of grain producers, establish and maintain standards of quality for Canadian grain and regulate grain handling in Canada, to ensure a dependable commodity for domestic and export markets."

In order to effectively pursue its mandate, the CGC aims to achieve the following strategic outcome: Canada's grain is safe, reliable and marketable and Canadian grain producers are properly compensated for grain deliveries to licensed grain companies.

The CGC's Program Alignment Architecture has five programs. The Quality Assurance Program, Quantity Assurance Program, Grain Quality Research Program, and Producer Protection Program each contribute to making progress to the sole strategic outcome. The Internal Services Program supports all other programs within the CGC.

The CGC Revolving Fund was established under *Appropriation Act No. 6, 1994-1995*. The Fund has a continuing non-lapsing authority from Parliament to make payments out of the Consolidated Revenue Fund for working capital, capital acquisitions and temporary financing of accumulated operating deficits and draw down authority of $2,000,000.

The CGC has not sought authorization from Treasury Board to access its net authority provided for 2016-17.

From fiscal year 2012-13 to fiscal year 2015-16, the CGC has transformed itself into a streamlined and financially sustainable organization. Funding for fiscal years 2015-16 and 2016-17 includes a combination of an ongoing appropriation and authority to re-spend revenues collected from fees. Forecasted spending for 2015-16 and planned spending for fiscal years 2016-17 is based on operations under an amended CGA and updated user fees. The CGC now recovers approximately 91% of its costs through user fees and no longer requires annual ad hoc funding.

In accordance with the Government's policy on self-insurance, the CGC does not carry its own insurance. The CGC is not subject to income tax.

2. Methodology and Significant Assumptions

The future-oriented statement of operations has been prepared on the basis of the government priorities and departmental plans as described in the Report on Plans and Priorities.

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The estimated results for fiscal year 2015-16 are based on actual results as at November 30, 2015 and on forecasts for the remainder of the fiscal year. Forecasts have been made for the planned results for the 2016-17 fiscal year.

The main assumptions underlying the forecasts are as follows:

- Fiscal year 2016-17 is the second full year of the transformed CGC as a result of changes to the CGA. Fiscal year 2016-17 reflects revenues and expenditures at the CGC's sustainable funding structure on the basis of the CGC's 2016-17 Report on Plans and Priorities. The department's services to be provided in 2016-17 remain substantially the same as 2015-16;
- Service fees for 2016-17 were established based on annual average grain volumes of 23.4 million metric tonnes. This is based on a 5 year historical average grain volume projection.
- 2015-16 forecasted revenues are based on 34.2 million metric tonnes due to higher grain volumes handled; and
- The CGC is currently working to assess its needs for infrastructure renewal to ensure the viability of the CGC. This includes the assessment at various CGC offices at terminal elevators as well as the renewal of the Grain Research Laboratory.

These assumptions are adopted as at November 30, 2015.

3. Variations and Changes to the Forecast Financial Information

While every attempt has been made to forecast final results for the remainder of 2015-16 and for 2016-17, actual results achieved for both years are likely to vary from the forecast information presented, and this variation could be material due to a number of factors, including environmental conditions.

In preparing this future-oriented statement of operations, the CGC has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Factors that could lead to material differences between the future-oriented statement of operations and the historical statement of operations include the following:

- Economic conditions in relation to grain volumes may affect both the amount of revenue earned and the collectability of accounts receivable;
- Further changes to the operating budget through additional new initiatives or technical adjustments later in the year;
- The timing and amounts of acquisitions, disposals of property, plant and equipment and timing of leasehold improvements may affect gains/losses and amortization expense; and

- Implementation of new collective agreements.

Once the *Report on Plans and Priorities* is presented, the CGC will not be updating the forecasts for any changes in financial resources made in ensuing supplementary estimates. Variances will be explained in the *Departmental Performance Report*.

4. Summary of Significant Accounting Policies

The future-oriented statement of operations has been prepared in accordance with accounting standards issued by the Treasury Board of Canada Secretariat which are based on Canadian public sector accounting standards. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian public sector accounting standards.

Significant accounting policies are as follows:

a. Measurement uncertainty

The preparation of this future-oriented statement of operations in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts.

The principal future-oriented statement of operations components subject to measurement uncertainty include salaries related to unsettled labour contracts, the useful life of tangible capital assets, the variability of annual grain volumes which can fluctuate up to 20 percent from year-to-year resulting in variable revenue from fees, and expenses for employee vacation, severance benefits and employee termination benefits. Actual results could differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the future-oriented statement of operations in the year they become known.

b. Revenues

Revenues are presented on an accrual basis and are accounted for in the period in which the underlying transaction or event occurred that gave rise to the revenues:

- Revenues from regulatory fees are recognized in the accounts based on the services provided in the year;
- Revenues that have been received where the CGC has an obligation to other parties for the provision of goods, services or the use of assets in the future are considered as deferred revenue. These revenues are recognized in the period in which the related expenses are incurred. Deferred revenue is primarily for licensing fees which usually cover a 12-month period; and

- Other revenues are accounted for in the period in which the underlying transaction or event that gave rise to the revenues takes place.

c. Expenses

Expenses are presented on an accrual basis:

- Expenses for the CGC's operations are recorded when goods are received or services are rendered, including services provided without charge for worker's compensation, which are recorded as expenses at its estimated cost;
- Vacation pay and compensatory leave are accrued and expenses are recorded as the benefits are earned by employees under their respective terms of employment;
- Expenses also include provisions to reflect changes in the value of assets, including provisions for bad debt on accounts receivable, to the extent the future event is likely to occur and a reasonable estimate can be made; and
- Expenses also include amortization of tangible capital assets, which are capitalized at their acquisition cost. Amortization of tangible capital assets is done on a straight-line basis over the estimated useful life of the asset.

d. Employee future benefits

- Employee severance benefits are accrued and expensed as the benefits are earned by employees as stipulated in their collective agreements. These benefits are currently funded through a monthly salary accrual based on a calculation of the actual severance liability owed per employee;
- Employees of the CGC are covered by the *Public Service Superannuation Act* and the *Supplementary Retirement Benefits Act*. The Government of Canada's portion of the pension cost is included in the employee benefit charge assessed against the Revolving Fund. The actual payment of the pension is made from the Public Service Superannuation and Supplementary Retirement Benefits Accounts; and
- Current legislation does not require the CGC to make contributions for any actuarial deficiencies of the Public Service Superannuation account.

e. Tangible capital assets

All tangible capital assets and leasehold improvements with a cost equal to or greater than $10,000 are capitalized at their acquisition cost.

Assets are amortized on a straight-line basis over their estimated useful lives, commencing in the month after acquisition, as follows:

Scientific equipment	5 years
Office equipment and furniture	5 years
Operational equipment	10 years
Motor vehicles	5 years
Computer equipment and software	3 years
Leasehold improvements	5 years (term of the lease)

5. Parliamentary Appropriations

The CGC is financed by the Government of Canada through a combination of an ongoing Parliamentary appropriation, authority to re-spend fees collected, accumulated surpluses from prior years and a revolving line of credit of $2,000,000. The CGC has not drawn on its line of credit since 2003-04.

The ongoing Parliamentary appropriation received for the Grain Quality Research program and Internal Audit expenditures will be recognized as revenue of the Fund. The government funding basis is used to recognize transactions affecting Parliamentary appropriations. The future-oriented statement of operations is based on accrual accounting. Consequently, items presented in the future-oriented statement of operations are not necessarily the same as those provided through appropriations from Parliament.

Items recognized in the future-oriented statement of operations in one year may be funded through Parliamentary authorities in prior, current, or future years. Accordingly, the CGC has different net cost of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables:

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a) Reconciliation of the total expenses to requested authorities:

	Planned 2017	Estimated 2016
	In thousands of dollars	
Total expenses (accrual basis)	**60,659**	**57,346**
Less:		
Adjustments for items affecting total expenses but not affecting authorities:		
Amortization of tangible capital assets	3,105	2,695
Services provided without charge	140	148
Others (prepaid, deferred revenue, etc.)	0	598
	3,245	3,441
Add:		
Adjustments for items not affecting total expenses but affecting authorities:		
Acquisitions of tangible capital assets	4,336	3,246
Employee future benefits	0	393
Employee Termination Benefit	0	409
Others (Retro, Advance, Prepaid, etc.)	0	400
	4,336	4,448
Total expenses (cash basis)	**61,750**	**58,353**
Projected revolving fund surplus	0	12,029
Total Authorities available for use	**61,750**	**70,382**

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b) Authorities requested:

		Planned 2017	Estimated 2016
		(in thousands of dollars)	
Authorities			
	Program Expenditure - Vote 1	4,776	4,884
	Program Expenditure - Vote 25		244
Statutory			
	Contributions to employee benefit plan	606	591
	Revenue Credited to Vote	56,368	64,770
Total Authorities received		**61,750**	**70,489**
Frozen allotment			(107)
Total Authorities Available		**61,750**	**70,382**

Authorities for the years ending March 31, 2016 and March 31, 2017 include amounts presented in the Main Estimates, Supplementary Estimates (A) and (B), planned for presentation in Supplementary Estimates (C), estimates of amounts to be allocated at year-end from Treasury Board central votes and other authorities provided by Treasury Board.

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FUTURE-ORIENTED STATEMENT OF OPERATIONS (unaudited)

(in thousands of dollars)

For the year ending March 31, 2017

	Quality Assurance	Quantity Assurance	Grain Quality Research	Producer Protection	Internal Services	2016-17 Total	2015-16 Total
Salaries	19,404,542	1,279,980	6,537,828	2,579,604	11,592,402	41,394,356	39,310,565
Operational travel	1,067,013	70,896	362,120	142,880	642,085	2,284,994	2,169,167
Rent	2,639,105	175,351	895,653	353,394	1,588,107	5,651,610	5,365,128
Amortization	1,109,873	0	1,072,903	10,432	911,392	3,104,600	2,694,878
Other operating costs	3,839,866	255,134	1,303,164	514,184	2,310,677	8,223,025	7,806,197
Total Expenses	**28,060,398**	**1,781,362**	**10,171,668**	**3,600,494**	**17,044,663**	**60,658,585**	**57,345,935**
Service Fees	28,835,016	1,915,901	4,649,034	3,861,205	17,106,752	56,367,908	68,215,537
Total Revenue	**28,835,016**	**1,915,901**	**4,649,034**	**3,861,205**	**17,106,752**	**56,367,908**	**68,215,537**
Net cost of operations before government funding and transfers	**(774,618)**	**(134,539)**	**5,522,634**	**(260,711)**	**(62,089)**	**4,290,677**	**(10,869,602)**

The accompanying notes form an integral part of these future-oriented financial statements.

* Service fees allocations are based on anticipated costs.

** The CGC receives annually approximately $5 million of appropriation that is not included in the revenue for the public benefit of Grain Quality Research. program and Internal Audit.

** The statements is based on accrual basis accounting see note 4 .